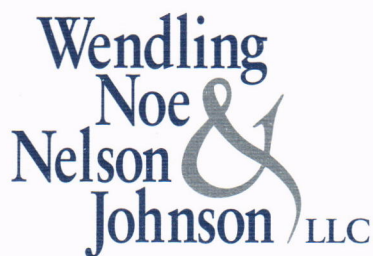


FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
CLAY COUNTY MEDICAL CENTER  
DECEMBER 31, 2017 AND 2016

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Certified Public Accountants  
and Management Consultants

Heather R. Eichem, CPA  
Brian J. Florea, CPA  
John R. Helms, CPA  
Eric L. Otting, CPA

Darrell D. Loyd, CPA  
Jere Noe, CPA  
John E. Wendling, CPA  
Barry W. Boyles, CPA  
Adam C. Crouch, CPA  
Ashley R. Davis, CPA

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Clay County Medical Center

We have audited the accompanying financial statements of the business-type activity of Clay County Medical Center (Medical Center), a component unit of Clay County, Kansas, as of and for the years ended December 31, 2017 and 2016, which collectively comprise the Medical Center's financial statements as listed in the table of contents, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### ***Basis for Qualified Opinion***

The 2017 and 2016 financial statements referred to above do not include financial data of the Clay County Hospital Foundation (Foundation), a component unit of the Medical Center based on the nature and significance of the relationship between the Medical Center and the Foundation. Although the Medical Center does not have ownership of the assets of the Foundation, the financial data of the Foundation should be included in order to conform with accounting principles generally accepted in the United States of America. If the omitted component unit had been included for the years ended December 31, 2017 and 2016, the component unit's assets and net assets would be approximately \$3,225,000 and \$2,631,000, respectively, and the increase in net assets would be approximately \$594,000 and \$841,000, respectively.

### ***Qualified Opinion***

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Clay County Medical Center as of December 31, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other-Matters***

#### **Required Supplementary Information**

The Medical Center has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

#### **Other**

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Clay County Medical Center's financial statements as a whole. The supplementary information presented on pages 22 through 27 is for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole, except that no opinion is expressed as to the adequacy of insurance coverage.

The statistical data shown on page 28 is presented solely as supplementary information. This data has been summarized from Medical Center records and was not subjected to the audit procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion on such data.

*Wendling Noe Nelson & Johnson 22C*

Topeka, Kansas  
April 4, 2018

FINANCIAL STATEMENTS

CLAY COUNTY MEDICAL CENTER  
STATEMENTS OF NET POSITION  
December 31,

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and invested cash	\$ 4,959,762	\$ 4,205,398
Assets whose use is limited - required for current liabilities (Note D)	1,614,644	350,248
Patient accounts receivable, net of allowance for doubtful accounts of \$5,671,377 in 2017 and \$3,185,149 in 2016 (Note A5)	3,031,285	3,998,230
Other receivables	11,814	16,081
Inventories (Note A6)	266,655	234,272
Prepaid expenses	<u>128,380</u>	<u>293,866</u>
Total current assets	<u>10,012,540</u>	<u>9,098,095</u>
ASSETS WHOSE USE IS LIMITED		
By Board of Trustees (Note C)	1,444,035	148,616
By agreement held by trustee (Note D)	<u>9,595,124</u>	<u>16,928,117</u>
	11,039,159	17,076,733
Less assets whose use is limited and that are required for current liabilities	<u>1,614,644</u>	<u>350,248</u>
Noncurrent assets whose use is limited	<u>9,424,515</u>	<u>16,726,485</u>
CAPITAL ASSETS - NET (Notes A8, E, F, and H)	<u>13,494,075</u>	<u>5,663,728</u>
OTHER ASSETS		
Other investments (Notes A10 and G)	<u>566,681</u>	<u>448,975</u>
Total assets	<u>\$ 33,497,811</u>	<u>\$ 31,937,283</u>

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Current portion of capital lease obligations (Note E)	\$ -	\$ 36,487
Current installments of long-term debt (Note H)	240,540	292,224
Accounts payable and other accrued liabilities	1,969,394	913,446
Salaries and wages payable	320,170	293,057
Accrued compensated absences	590,442	529,891
Estimated settlements due to third-party payors (Note B)	631,180	1,584,780
Accrued interest payable	<u>141,476</u>	<u>140,248</u>
Total current liabilities	<u>3,893,202</u>	<u>3,790,133</u>
LONG-TERM DEBT, excluding current installments (Note H)	<u>17,270,351</u>	<u>17,573,783</u>
Total liabilities	<u>21,163,553</u>	<u>21,363,916</u>
NET POSITION (Note A11)		
Invested in capital assets - net of related debt	5,272,108	4,899,845
Restricted		
For debt service (Note D)	543,740	637,880
Unrestricted	<u>6,518,410</u>	<u>5,035,642</u>
Total net position	<u>12,334,258</u>	<u>10,573,367</u>
Total liabilities and net position	<u>\$ 33,497,811</u>	<u>\$ 31,937,283</u>

CLAY COUNTY MEDICAL CENTER  
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN  
NET POSITION  
Year ended December 31,

	<u>2017</u>	<u>2016</u>
Operating revenues		
Net patient service revenue	\$ 20,798,397	\$ 18,969,152
Electronic health record incentive revenues	65,753	415,539
Other	<u>678,133</u>	<u>652,351</u>
Total operating revenue	<u>21,542,283</u>	<u>20,037,042</u>
Operating expenses		
Salaries and wages	11,116,726	8,927,426
Employee benefits	2,488,311	2,341,699
Supplies and other	6,413,550	6,608,051
Depreciation and amortization	<u>933,460</u>	<u>1,115,561</u>
Total operating expenses	<u>20,952,047</u>	<u>18,992,737</u>
Operating income	<u>590,236</u>	<u>1,044,305</u>
Nonoperating revenues (expenses), net		
Tax levy	662,797	625,126
Interest expense	(73,237)	(318,887)
Investment income	151,408	61,397
Noncapital grants and contributions	86,917	65,219
Gain on sale of capital assets	1,896	
Gain on involuntary conversion	<u></u>	<u>205,374</u>
Total nonoperating revenues (expenses), net	<u>829,781</u>	<u>638,229</u>
Revenues in excess of expenses before capital contributions	1,420,017	1,682,534
Capital contributions	<u>340,874</u>	<u></u>
Change in net position	1,760,891	1,682,534
Net position at beginning of year	<u>10,573,367</u>	<u>8,890,833</u>
Net position at end of year	<u>\$ 12,334,258</u>	<u>\$ 10,573,367</u>

The accompanying notes are an integral part of these statements.

CLAY COUNTY MEDICAL CENTER  
STATEMENTS OF CASH FLOWS  
Year ended December 31,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 20,811,742	\$ 18,641,663
Payments to or on behalf of employees	(13,551,824)	(10,961,379)
Payments for suppliers and services	(5,826,935)	(6,871,741)
Other receipts and payments	<u>749,381</u>	<u>1,245,218</u>
Net cash provided by operating activities	<u>2,182,364</u>	<u>2,053,761</u>
Cash flows from noncapital financing activities		
Tax levy	662,797	625,126
Noncapital grants and contributions	<u>86,917</u>	<u>65,219</u>
Net cash provided by noncapital financing activities	<u>749,714</u>	<u>690,345</u>
Cash flows from capital and related financing activities		
Proceeds from issuance of long-term debt		17,763,243
Payment of bond financing costs		(239,911)
Acquisition of capital assets	(7,639,323)	(1,551,675)
Proceeds from sale of capital assets	1,896	205,374
Principal payments on long-term debt	(346,312)	(1,477,224)
Principal payments on capital lease obligations	(36,487)	(108,189)
Capital contributions received	340,874	
Interest paid	<u>(569,638)</u>	<u>(78,977)</u>
Net cash provided (used) by capital and related financing activities	<u>(8,248,990)</u>	<u>14,512,641</u>
Cash flows from investing activities		
Change in assets whose use is limited by agreement	7,332,993	(16,342,813)
Change in other investments	(117,706)	(96,330)
Investment income received	<u>151,408</u>	<u>61,397</u>
Net cash provided (used) by investing activities	<u>7,366,695</u>	<u>(16,377,746)</u>
Net increase in cash and cash equivalents	2,049,783	879,001
Cash and cash equivalents at beginning of year	<u>4,354,014</u>	<u>3,475,013</u>
Cash and cash equivalents at end of year	<u>\$ 6,403,797</u>	<u>\$ 4,354,014</u>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	\$ 4,959,762	\$ 4,205,398
Cash included in assets whose use is limited by Board of Trustees	<u>1,444,035</u>	<u>148,616</u>
	<u>\$ 6,403,797</u>	<u>\$ 4,354,014</u>

The accompanying notes are an integral part of these statements.

CLAY COUNTY MEDICAL CENTER  
STATEMENTS OF CASH FLOWS - CONTINUED  
Year ended December 31,

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 590,236	\$ 1,044,305
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	933,460	1,115,561
Provision for bad debts	1,484,047	1,284,864
Changes in		
Accounts receivable	(517,102)	(2,519,688)
Other receivables	4,267	54,859
Estimated settlements with third-party payors	(953,600)	907,335
Inventories and prepaid expenses	133,103	(118,734)
Accounts payable and accrued expenses	<u>507,953</u>	<u>285,259</u>
Net cash provided by operating activities	<u>\$ 2,182,364</u>	<u>\$ 2,053,761</u>

The accompanying notes are an integral part of these statements.

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Financial reporting entity

Clay County Medical Center (Medical Center) is located in Clay Center, Kansas, and operates a 25-bed hospital. On July 1, 2016, the Medical Center acquired a physician practice and is operating it as a provider-based rural health clinic. The Medical Center is owned by Clay County, Kansas (County), and governed by an elected five-member Board of Trustees. The Medical Center is a component unit of the County.

2. Blended component unit

Liberty Square, Inc. (LSI), is a not-for-profit corporation that was established for the basic purpose of leasing a nursing home and extended care facility to another party. LSI is governed by a Board of Trustees who hold their positions as a result of being elected members of the Medical Center's Board. For financial reporting purposes, LSI is reported as if it were a part of the Medical Center. The net assets of LSI, if any, are to be distributed to the Medical Center upon dissolution.

3. Basis of accounting

The Medical Center uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

5. Patient accounts receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Medical Center provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

6. Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

7. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

8. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets is provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Costs of borrowing

Interest costs (including amortization of bond premium) incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Original issue premiums and discounts associated with issuance of long-term debt are amortized using the principal outstanding method over the term of the related debt.

10. Other investments

The Medical Center's investments in Mobile Clinical Services, Inc., Clay County Assisted Living, LLC, and Community Holdings LLC are stated at cost plus equity in undistributed net earnings (loss) since the date of acquisition.

11. Net position

The net position of the Medical Center is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is the remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

12. Operating revenues and expenses

The statement of revenue, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Medical Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

13. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, the provision for bad debts and contractual adjustments, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

14. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and other organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for specific operating purposes are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

15. Charity care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

16. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Sections 115 and 501(c)(3) of the Internal Revenue Code.

17. Cash equivalents

The Medical Center considers all cash and invested cash, excluding any assets whose use is limited by agreement held by trustee, to be cash equivalents for purposes of the cash flow statement. Comparative financial statements of prior years have been restated to reflect this change. This restatement had no effect on previously reported net position or the change in net position.

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE B - REIMBURSEMENT PROGRAMS

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated settlements due to/from third-party payors consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient and outpatient services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Medical Center under the critical access provisions are primarily based on various cost reimbursement methodologies. Physician and hospice services rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule. The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are also paid at prospective rates determined on either a per diem or fee-for-service basis. The Medical Center receives a hospital-specific add-on percentage to each claim based on previously filed cost reports.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

A summary of gross and net patient service revenue follows:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$ 41,185,987	\$ 36,357,192
Adjustments to patient revenue		
Third-party contractual adjustments, discounts, and allowances	(18,609,893)	(15,983,990)
Provision for bad debts	(1,484,047)	(1,284,864)
Charity care	(293,650)	(119,186)
Net patient service revenue	<u>\$ 20,798,397</u>	<u>\$ 18,969,152</u>

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE B - REIMBURSEMENT PROGRAMS - Continued

The Medical Center maintains records to identify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2017 and 2016, was \$293,650 and \$119,186, respectively. The Medical Center estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Medical Center's cost reports, was \$142,535 and \$57,457 for 2017 and 2016, respectively.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Medical Center recognizes revenue for EHR incentives when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Medical Center recognized \$65,753 and \$415,539 of revenue related to EHR incentives in 2017 and 2016, respectively.

The Medical Center incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiatives. The amounts and timing of these expenditures do not directly correlate with the timing of the Medical Center's recognition of EHR incentives as revenue.

NOTE C - ASSETS WHOSE USE IS LIMITED BY BOARD OF TRUSTEES

Assets whose use is limited by the Board of Trustees consist of invested cash to be used for replacement of capital assets or for the purchase of additional capital assets, future bond principal and interest payments, and for deductible amounts under the Medical Center's health plan. The assets may be used for other purposes by action of the Board of Trustees.

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE D - ASSETS WHOSE USE IS LIMITED BY AGREEMENT HELD BY TRUSTEE

Assets whose use is limited by agreement held by trustee are related to the Series 2016 General Obligation Refunding and Improvement Bonds (see Note H). The assets consist of invested cash and U.S. government and agency obligations in the following accounts:

	<u>2017</u>	<u>2016</u>
Debt Service Account	\$ 543,740	\$ 637,880
Series 2016-Bond Compliance Account	3,000	3,000
Series 2016-Cost of Issuance Account		16,474
Series 2016-Capitalized Interest Account	550,650	1,096,711
Series 2016-Project Fund	<u>8,497,734</u>	<u>15,174,052</u>
	9,595,124	16,928,117
Less amounts required for current liabilities	<u>1,614,644</u>	<u>350,248</u>
	<u>\$ 7,980,480</u>	<u>\$ 16,577,869</u>

The Debt Service Account is to be used to pay interest and principal payments on the bonds. Funds in these accounts that are required for obligations classified as current liabilities are reported in current assets.

The Medical Center categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are unadjusted quoted prices for identical assets in active markets. Level 2 inputs are significant other observable inputs. Level 3 inputs are unobservable and supported by little or no market activity.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodology used for assets measured at fair value on a recurring basis:

Money market mutual funds are valued at unadjusted quoted prices for identical securities in active markets (Level 1 inputs).

U.S. Government and Agency bonds and corporate bonds are valued at prices provided by independent pricing services (Level 2 inputs).

The Medical Center has the following recurring fair value measurements at December 31, 2017 and 2016, included under the caption of Assets Limited as to Use by agreement held by trustee:

Money market mutual funds of \$3,601,766 and \$1,089,655, respectively, are valued at unadjusted quoted prices in active markets (Level 1).

U.S. Government and Agency obligations of \$5,446,617 and \$15,181,109, respectively, are valued at prices provided by independent pricing services to the trustee (Level 2).

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE E - LEASES

The Medical Center leases certain capital assets under long-term lease arrangements.

The following is a summary of changes in capital lease obligations:

Principal outstanding at January 1, 2016	\$ 144,676
2016 Payments on capital lease obligations	<u>(108,189)</u>
Principal outstanding at December 31, 2016	36,487
2017 Payments on capital lease obligations	<u>(36,487)</u>
Principal outstanding at December 31, 2017	<u><u>\$ -</u></u>

NOTE F - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2017			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 117,377	\$ -	\$ -	\$ 117,377
Land improvements	339,451			339,451
Buildings and fixed equipment	14,037,331	83,121		14,120,452
Major movable equipment	<u>6,937,268</u>	<u>508,266</u>	<u>136,163</u>	<u>7,309,371</u>
Totals at historical cost	<u>21,431,427</u>	<u>591,387</u>	<u>136,163</u>	<u>21,886,651</u>
Less accumulated depreciation and amortization				
Land improvements	267,369	10,881		278,250
Buildings and fixed equipment	10,705,847	415,993		11,121,840
Major movable equipment	<u>5,612,379</u>	<u>506,586</u>	<u>136,163</u>	<u>5,982,802</u>
	<u>16,585,595</u>	<u>933,460</u>	<u>136,163</u>	<u>17,382,892</u>
	4,845,832	(342,073)		4,503,759
Projects in progress	<u>817,896</u>	<u>8,172,420</u>		<u>8,990,316</u>
Capital assets, net	<u><u>\$ 5,663,728</u></u>	<u><u>\$ 7,830,347</u></u>	<u><u>\$ -</u></u>	<u><u>\$13,494,075</u></u>

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE F - CAPITAL ASSETS - Continued

	2016			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 117,377	\$ -	\$ -	\$ 117,377
Land improvements	339,451			339,451
Buildings and fixed equipment	13,751,440	285,891		14,037,331
Major movable equipment	<u>6,223,766</u>	<u>714,028</u>	<u>526</u>	<u>6,937,268</u>
Totals at historical cost	<u>20,432,034</u>	<u>999,919</u>	<u>526</u>	<u>21,431,427</u>
Less accumulated depreciation and amortization				
Land improvements	254,276	13,093		267,369
Buildings and fixed equipment	10,276,644	429,203		10,705,847
Major movable equipment	<u>4,939,640</u>	<u>673,265</u>	<u>526</u>	<u>5,612,379</u>
	<u>15,470,560</u>	<u>1,115,561</u>	<u>526</u>	<u>16,585,595</u>
	4,961,474	(115,642)		4,845,832
Projects in progress	<u>43,500</u>	<u>774,396</u>		<u>817,896</u>
Capital assets, net	<u>\$ 5,004,974</u>	<u>\$ 658,754</u>	<u>\$ -</u>	<u>\$ 5,663,728</u>

Projects in progress at December 31, 2017 and 2016, consisted mainly of costs incurred for various items of equipment, software upgrades, and building renovation and expansion. Bids and contracts for the building renovation and expansion in the amount of approximately \$15,089,000 have been entered into by the Medical Center as of December 31, 2017. As of December 31, 2017, outstanding commitments related to the project totaled approximately \$6,099,000.

NOTE G - OTHER INVESTMENTS

Other investments consist of 5,000 shares (20 percent) of the common stock of Mobile Clinical Services, Inc. (MCS), two units (22.2 percent) of the ownership units of Clay County Assisted Living, LLC (CCAL), and a 14.86 percent equity interest in Community Holdings LLC (CH) (see Note K). The Medical Center's equity in undistributed net earnings of MCS since acquisition is \$164,834. The Medical Center's equity in the undistributed net loss of CCAL since acquisition is \$108,164. The Medical Center's equity in the undistributed net earnings of CH since acquisition is \$102,421. The carrying values of MCS, CCAL, and CH are \$169,834, \$(8,164), and \$405,011 at December 31, 2017, respectively.

Nuclear medicine and ultrasound services are provided to the Medical Center through arrangements with MCS. Total fees charged to operating expense for these services were approximately \$98,000 in 2017 and \$207,000 in 2016. Amounts payable to MCS for these services were insignificant at December 31, 2017 and 2016. The Medical Center paid CH approximately \$828,000 and \$689,000 in 2017 and 2016, respectively, for premiums under its partially self-insured health insurance plan.

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE H - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2017</u>	<u>2016</u>
2.00% to 4.00% General Obligation Refunding and Improvement Bonds, Series 2016, issued in October 2016, in the original amount of \$16,775,000	\$ 16,565,000	\$ 16,775,000
0% Note payable due to Blue Stem Electric Coop, issued in April 2008, in the original amount of \$740,000 with an administrative fee of one percent of the unpaid balance due annually to Blue Stem Electric Coop and, in addition, an administrative fee of one percent of the unpaid principal balance due annually to a local bank, and monthly principal payments of \$6,852	20,540	102,764
	16,585,540	16,877,764
Net unamortized premium on 2016 bonds	925,351	988,243
Less current maturities of long-term debt	(240,540)	(292,224)
	<u>\$ 17,270,351</u>	<u>\$ 17,573,783</u>

The County issued \$2,500,000 Series 2006-A Hospital Revenue bonds in March 2006. The proceeds from this issue were used to construct a building addition and related improvements. The revenue bonds were payable solely from a pledge of the revenues derived from the operation of the Medical Center. The Series 2006-A bonds were refunded in October of 2016 with the proceeds of the Series 2016 General Obligation Refunding and Improvement bonds.

In October of 2016, the County issued \$16,775,000 in General Obligation Refunding and Improvement bonds (the 2016 bonds). The proceeds of the 2016 bonds were used to refund the remaining principal of the Series 2006-A bond issue, and to pay for certain costs related to the issuance of the bonds as well as to finance the expansion and renovation of the Medical Center. The bonds are due in annual installments of varying amounts with final maturity on October 1, 2046. Interest is payable on April 1 and October 1 of each year.

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE H - LONG-TERM DEBT - Continued

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 240,540	\$ 556,300	\$ 796,840
2019	510,000	561,900	1,071,900
2020	510,000	551,700	1,061,700
2021	595,000	536,400	1,131,400
2022	600,000	518,550	1,118,550
Thereafter	<u>14,130,000</u>	<u>5,699,450</u>	<u>19,829,450</u>
	<u>\$ 16,585,540</u>	<u>\$ 8,424,300</u>	<u>\$ 25,009,840</u>

The following is a summary of changes in long-term debt:

Principal outstanding at January 1, 2016	\$ 1,579,988
2016 long-term debt obligations incurred	16,775,000
2016 payment of debt	<u>(1,477,224)</u>
Principal outstanding at December 31, 2016	16,877,764
2017 payment of debt	<u>(292,224)</u>
Principal outstanding at December 31, 2017	<u>\$ 16,585,540</u>

Total interest costs are summarized as follows:

	<u>2017</u>	<u>2016</u>
Total interest incurred	\$ 569,638	\$ 199,590
Payment of bond financing costs		239,910
Amortization of bond premium	(8,804)	
Interest capitalized	<u>(487,597)</u>	<u>(120,613)</u>
Interest expense	<u>\$ 73,237</u>	<u>\$ 318,887</u>

NOTE I - RISK MANAGEMENT

The Medical Center is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against the Medical Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. All coverage is on a claims-made basis. The above policies are currently in effect through December 31, 2017. The Medical Center intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE I - RISK MANAGEMENT - Continued

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks.

NOTE J - PENSION PLAN

The Medical Center sponsors the Clay County Medical Center Employees' Pension Plan (Plan), which is a defined contribution pension plan. Substantially all employees of the Medical Center are eligible to participate in the Plan after one year of employment. The Hospital contributes 3.5 percent of all eligible employee salaries toward each employee's respective retirement account. An eligible employee must be employed by the Hospital for no less than 12 months, worked a minimum of 1,000 hours per year, and be at least 21 years old. Employees can voluntarily contribute up to the maximum allowed by the Internal Revenue Service. Contributions to the Plan made by an employee vest immediately and contributions to the Plan made by the Medical Center vest based upon the Plan's vesting schedule and the employee's years of service with the Medical Center.

For the years ended December 31, 2017 and 2016, the Hospital and covered employees' contributions to the Plan were as follows:

	<u>2017</u>	<u>2016</u>
Hospital contributions	\$ 321,373	\$ 261,258
Employee contributions	616,173	466,330

NOTE K - EMPLOYEE HEALTH INSURANCE

The Medical Center is partially self-insured for health insurance claims of its employees. The Medical Center has a reinsurance agreement that provides individual stop-loss coverage for incurred claims expense in excess of \$35,000 for individual subscribers. In addition, the reinsurance company contracts with another insurance company to provide catastrophic stop-loss insurance coverage for incurred claims expense in excess of \$250,000 for individual subscribers. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Medical Center has retained an insurance company as its agent to process and settle claims.

The Medical Center has an equity interest in the company that provides individual stop-loss coverage for incurred claims expense in excess of \$35,000 for individual subscribers. The detail of this investment is included in Note G.

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE K - EMPLOYEE HEALTH INSURANCE - Continued

The following is a summary of the activity under this arrangement:

	<u>2017</u>	<u>2016</u>
Estimated employee health insurance claims payable at beginning of period	\$ 138,813	\$ 85,612
Provision for employer's share of incurred claims expenses for the period, net of any reinsurance proceeds	1,057,743	1,087,031
Employee contributions	510,762	401,756
Payments made for claims, expenses, and reinsurance premiums	<u>(1,602,956)</u>	<u>(1,435,586)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 104,362</u>	<u>\$ 138,813</u>

NOTE L - RENTAL OF PROPERTY

The Medical Center receives rent under operating lease agreements for physician private office space, a nursing home and extended care facility, and other space. Rental revenue under these agreements was approximately \$134,000 and \$133,000 for 2017 and 2016, respectively.

NOTE M - OTHER RELATED PARTIES

Clay County Medical Center Foundation (Foundation) was established in April 1987 and its Articles of Incorporation provide that its funds are for the benefit of the Medical Center. The Foundation's Board is independent of the Medical Center. The Medical Center did not receive any noncapital grants and contributions from the Foundation in 2017 and 2016, respectively; however, \$340,874 in capital contributions were received in 2017.

The Medical Center had a contract through June 30, 2016, with a local physician practice to provide emergency room coverage services. One of the members of this physician practice was an immediate family member of one of the Medical Center's Board of Trustees. The total fees paid to the physician practice under the contract through June 30, 2016, were \$44,124. On July 1, 2016, the Medical Center acquired this physician practice and the physician is now a Medical Center employee.

NOTE N - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Medical Center, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

CLAY COUNTY MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2017 and 2016

NOTE N - DEPOSITS WITH FINANCIAL INSTITUTIONS - Continued

The carrying amount of the Medical Center's deposits with financial institutions was \$6,402,647 and the bank balance was \$6,573,659 at December 31, 2017. The bank balance is categorized as follows at December 31, 2017:

Amount insured by the F.D.I.C., or collateralized with securities held by the Medical Center or by its agent in the Medical Center's name	\$ 923,198
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)	<u>5,650,461</u>
	<u>\$ 6,573,659</u>

NOTE O - SUBSEQUENT EVENTS

The Medical Center has evaluated subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CLAY COUNTY MEDICAL CENTER  
NET PATIENT SERVICE REVENUE  
Year ended December 31,

	2017			2016
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Routine nursing care	\$ 3,600,561	\$ 280,851	\$ 3,881,412	\$ 3,475,236
Nursery	81,419		81,419	76,271
Intensive care				44,928
Surgery, recovery, and treatment room	86,333	1,075,772	1,162,105	998,147
Labor and delivery	180,111	11,993	192,104	173,696
Medical and surgical supplies	418,256	412,894	831,150	892,409
Emergency room and observation	61,022	3,826,780	3,887,802	3,616,907
Laboratory	726,652	4,860,706	5,587,358	4,286,127
Blood administration	43,127	51,753	94,880	90,163
Radiology	234,193	2,891,999	3,126,192	3,244,471
Nuclear medicine	22,314	612,513	634,827	782,653
Sonograms	21,906	429,280	451,186	493,764
Computerized tomography	497,064	4,307,189	4,804,253	4,703,274
Mammography		258,909	258,909	285,368
Vascular studies, telemetry, and cardiology	157,828	1,475,563	1,633,391	1,721,200
Clinics	2,987	442,444	445,431	232,619
Pharmacy	737,434	2,404,405	3,141,839	2,961,617
Intravenous therapy	180,777	108,776	289,553	270,983
Anesthesiology	99,174	1,183,073	1,282,247	1,051,723
Respiratory therapy	794,469	216,771	1,011,240	1,050,494
Physical therapy	300,514	1,211,542	1,512,056	1,513,767
Occupational therapy	204,727	170,901	375,628	387,266
Speech therapy	155,497	140,989	296,486	254,901
Hospice	18,245	1,835,978	1,854,223	1,685,091
Rural health clinic		4,326,386	4,326,386	2,007,767
Pulmonary rehabilitation		23,910	23,910	56,350
Gross patient service revenue	<u>\$ 8,624,610</u>	<u>\$32,561,377</u>	41,185,987	36,357,192
Adjustments to gross patient service revenue				
Contractual adjustments, discounts, and allowances			(18,609,893)	(15,983,990)
Provision for bad debts			(1,484,047)	(1,284,864)
Charity care			(293,650)	(119,186)
Net patient service revenue			<u>\$20,798,397</u>	<u>\$18,969,152</u>

## CLAY COUNTY MEDICAL CENTER

## OPERATING EXPENSES

Year ended December 31,

	2017			2016
	<u>Salaries and wages</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
Routine nursing care	\$ 1,305,087	\$ 129,986	\$ 1,435,073	\$ 1,383,881
Nursing administration	115,078	12,392	127,470	153,557
Nursery	41,399	3,126	44,525	36,152
Intensive care	806	2,328	3,134	29,333
Surgery, recovery, and treatment room	383,471	244,416	627,887	468,675
Surgery clinic	10,536	572	11,108	9,792
Labor and delivery	90,536	26,431	116,967	135,970
Medical and surgical supplies		170,730	170,730	174,439
Emergency room	972,306	105,425	1,077,731	1,211,387
Laboratory	427,206	588,403	1,015,609	818,796
Blood administration		50,679	50,679	45,779
Radiology	251,634	242,072	493,706	454,240
Nuclear medicine		122,812	122,812	140,757
Sonogram	65,048	11,511	76,559	78,603
Computerized tomography	69,950	101,913	171,863	155,068
Mammography	50,680	56,528	107,208	116,027
Vascular studies and cardiology	121,125	7,408	128,533	214,769
Clinics	105,845	4,461	110,306	29,204
Pharmacy	71,673	1,263,964	1,335,637	1,211,346
Intravenous therapy	125,825	41,389	167,214	173,042
Anesthesiology		398,000	398,000	378,310
Respiratory therapy	172,330	25,603	197,933	215,285
Physical, occupational, and speech therapy	627,792	34,684	662,476	645,576
Wellness	123,737	51,587	175,324	167,281
Hospice	683,614	591,968	1,275,582	1,271,213
Dietary	229,860	138,327	368,187	351,445
Operation of plant	130,840	573,071	703,911	693,779
Housekeeping	168,368	26,334	194,702	196,148
Laundry	78,461	25,912	104,373	88,992
Medical records	363,849	112,279	476,128	450,823
Fiscal services	809,639	270,184	1,079,823	1,032,070
Purchasing	42,010	25,802	67,812	69,161
Administrative services	787,687	561,297	1,348,984	1,402,296
Employee benefits		2,488,311	2,488,311	2,341,699
Depreciation and amortization		933,460	933,460	1,115,561
Rural health clinic	2,672,769	370,204	3,042,973	1,497,016
Pulmonary rehabilitation	17,565	438	18,003	23,762
340B		21,314	21,314	11,503
	<u>\$11,116,726</u>	<u>\$ 9,835,321</u>	<u>\$ 20,952,047</u>	<u>\$18,992,737</u>

CLAY COUNTY MEDICAL CENTER  
SUMMARY OF INSURANCE COVERAGE  
December 31, 2017

	<u>Policy number</u>	<u>Policy expiration date</u>	<u>Amount</u>
Property - All locations including Medical Arts Bldg	35978042	12-31-17	\$30,937,349
Workmen's compensation Employer liability	Certificate #8	1-01-18	Statutory 500,000/500,000
Crime - Employee Theft	EPP 0367804	12-31-17	100,000
Crime - Forgery/Alteration	EPP 0367804	12-31-17	10,000
Crime - Computer Fraud	EPP 0367804	12-31-17	100,000
Crime - Funds Transfer Fraud	EPP 0367804	12-31-17	100,000
Medical Center liability	HPL0021603	12-31-17	
Professional liability			200,000/600,000
Medical Center premises and operations			1,000,000/3,000,000
Professional employees other than physicians and residents			1,000,000/3,000,000
Employee benefits liability			250,000/250,000
Cyber liability			100,000/100,000
Professional liability - Kansas Health Care Stabilization Fund	HPL0021603	12-31-17	300,000/900,000
Employed providers Healthcare Stabilization Fund	MPL11623	12-31-17	200,000/600,000 800,000/2,400,000
Trustees and officers' liability	EPP4917655	1-27-18	1,000,000/1,000,000
Auto Comprehensive and collision Liability	EPP 0367804	12-31-17	Full coverage 1,000,000
Employment Practices Liability	EPP4917655	1-27-18	1,000,000/1,000,000

CLAY COUNTY MEDICAL CENTER  
PATIENT ACCOUNTS RECEIVABLE  
December 31,

	<u>2017</u>	<u>2016</u>
Age of patients' accounts		
0 - 30 days	\$ 3,374,598	\$ 3,426,755
31 - 60 days	1,599,760	1,549,394
61 - 90 days	604,238	651,711
Over 90 days	<u>6,002,773</u>	<u>3,831,783</u>
	11,581,369	9,459,643
Less:		
Allowance for doubtful accounts	(5,671,377)	(3,185,149)
Allowance for contractual adjustments	<u>(2,878,707)</u>	<u>(2,276,264)</u>
	<u>\$ 3,031,285</u>	<u>\$ 3,998,230</u>

CLAY COUNTY MEDICAL CENTER  
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY  
December 31, 2017

	Clay County National Bank Clay Center, Kansas	Farmer's & Merchants State Bank Clay Center, Kansas
Bank balances		
December 31, 2017	\$ 173,198	\$ 4,541,651
Less F.D.I.C. coverage	<u>173,198</u>	<u>250,000</u>
Balance in excess of F.D.I.C. coverage	<u>\$ -</u>	<u>\$ 4,291,651</u>
Market value of securities pledged	<u>\$ -</u>	<u>\$ 4,688,151</u>

CLAY COUNTY MEDICAL CENTER  
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY - CONTINUED  
December 31, 2017

	Union State Bank Clay Center, Kansas	United Bank & Trust Clay Center, Kansas
Bank balances		
December 31, 2017	\$ 655,341	\$ 1,203,469
Less F.D.I.C. coverage	<u>250,000</u>	<u>250,000</u>
Balance in excess of F.D.I.C. coverage	<u>\$ 405,341</u>	<u>\$ 953,469</u>
Market value of securities pledged	<u>\$ 2,872,167</u>	<u>\$ 1,428,022</u>

CLAY COUNTY MEDICAL CENTER  
 STATISTICAL DATA  
 (Unaudited)  
 Year ended December 31,

	<u>2017</u>	<u>2016</u>
Patient days		
Routine nursing care		
Acute care	1,852	1,505
Swing-bed care		
Skilled	1,967	2,177
Intensive care	-	18
Nursery	101	98
Discharges (excluding newborn)	763	668
Admissions (excluding newborn)	765	677
Number of licensed beds (excluding nursery)	25	25
Total patient days (excluding nursery)	3,819	3,700
Percent of occupancy (excluding nursery)	41.85%	40.55%
Medicare patient days		
Routine nursing care		
Acute care	1,441	1,034
Swing-bed care	1,861	1,936
Intensive care	-	13
Total	3,302	2,983
Medicaid patient days		
Routine nursing care		
Acute care	89	104
Swing-bed care	-	28
Intensive care	-	3
Nursery	29	37
Total	118	172
Rural health clinic visits	25,076	12,617